HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

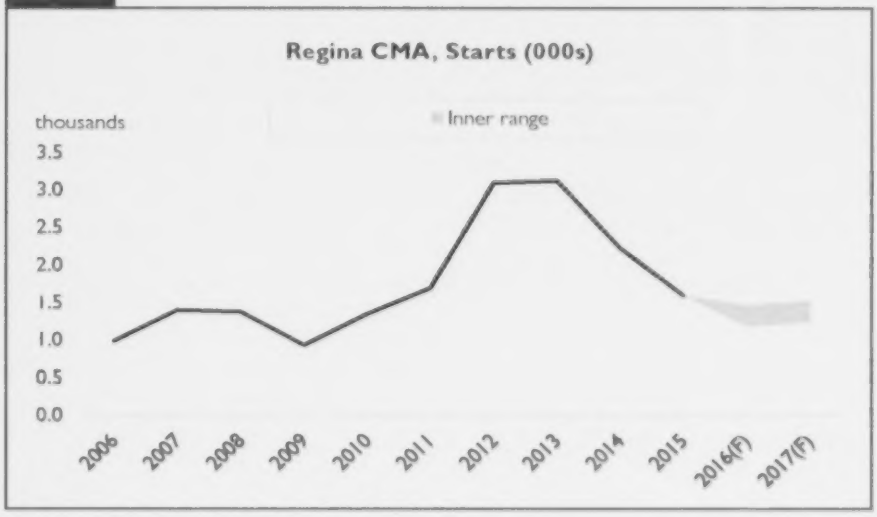
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2016

Highlights

- Weaker economic conditions and elevated inventory will constrain housing starts through 2017.
- MLS®[1] sales in Regina to remain relatively flat in 2016, edge higher in 2017.
- Resale prices to stabilize in 2016, move slightly higher in 2017 as market balance improves.
- Labour market conditions to remain weak in 2016, but gradually improve in 2017.

Figure 1



Source: CMHC, (F): CMHC Forecast

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 29, 2016.

[1] MLS® is a registered trademark of the Canadian Real Estate Association.

Table of Contents

1 Highlights

2 New Home Market: Total housing starts to decline further in 2016, edge higher in 2017

3 Resale market: MLS® sales to remain flat in 2016, edge up in 2017

4 Rental market: Higher rental supply will keep upward pressure on vacancies through 2017

5 Economic trends: Flat job growth expected in 2016, modest increase projected for 2017

5 Mortgage rates are expected to rise moderately from current levels in 2017

7 Trends at a Glance

8 Forecast Risks

10 Forecast Summary

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New Home Market: Total housing starts to decline further in 2016, edge higher in 2017

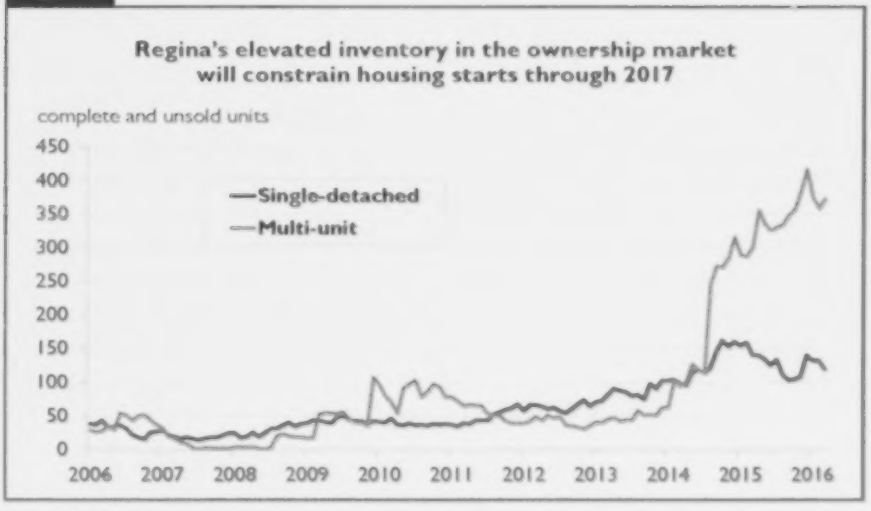
After declining 28 per cent to 1,597 units in 2015, total housing starts in the Regina Census Metropolitan Area (CMA) are forecast to range from 1,180 to 1,470 units in 2016 and from 1,240 to 1,530 units in 2017. Economic activity in Regina has been weakened by low global prices for oil, potash and uranium. The loss of government revenues from the energy rout in particular has curtailed capital investments and slowed employment growth in the local economy. With employment growth moderating, net migration to the region has also declined, which has contributed to the decline in demand for new housing units in Regina. This year, local builders will continue to navigate weaker economic conditions by channeling new demand to their inventory of completed and unsold units, which will constrain total housing starts. In 2017, a gradual improvement in economic conditions and continued depletion of inventory are expected to lead to a modest increase in housing starts.

Single-detached starts in Regina are forecast to range from 580 to 670 units in 2016 and from 590 to 680 units in 2017. After two years of sharp declines, single-detached starts are poised for some growth in 2016. Nonetheless, the expected gains will be an increase from very low levels and remain below the 2012-2013 levels. Much of the decline in single starts in Regina over the past couple of years can be explained by the shift in demand towards lower-price options in the multi-unit market such as condominium apartments and townhouses, and by increasing competing supply in the resale market. Moving forward, the wide price gap between new single-detached units and condominiums represents head winds for the single-detached sector over the forecast horizon. Nonetheless, after two consecutive years of significant declines, we expect single-detached starts to increase slightly this year and next year as well.

Building permits for single-detached units were up more than 60 per cent in February 2016, compared to the previous year. As a result, single-detached starts increased 49 per cent to 121 units in the first quarter of 2016 from 81 units in the corresponding period of 2015. Meanwhile, the inventory of complete and unsold single-detached units stood at 119 units in March 2016, down 15 per cent from 140 in March 2015. A continued drawdown of inventory, along with on-going neighbourhood expansion efforts in the Regina CMA, should support a slightly higher level of single starts moving forward.

Figure 2

Regina's elevated inventory in the ownership market will constrain housing starts through 2017



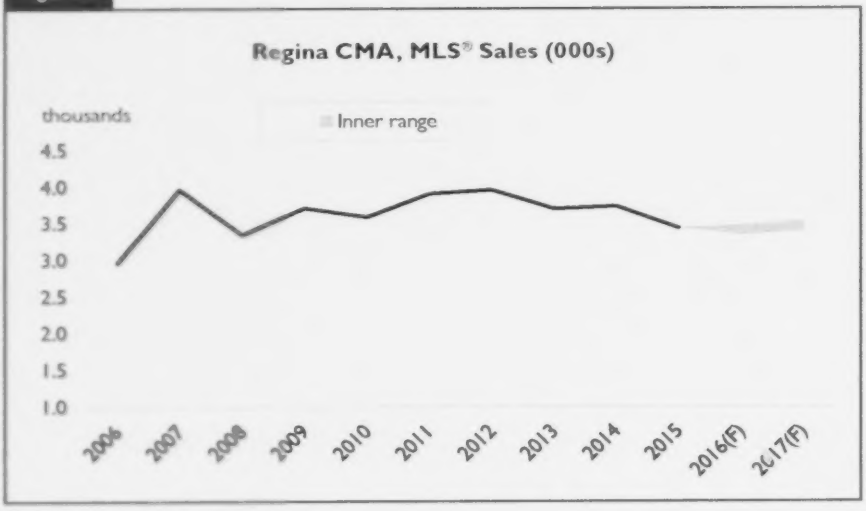
Source: CMHC

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Figure 3



Source: CREA, (F): CMHC Forecast

Following a 28.5 per cent reduction to 1,084 units in 2015, multi-unit[2] starts are forecast to lead the decline in Regina's housing starts this year and range from 690 to 720 units in 2016 and from 730 to 770 units in 2017. While the past few years have seen an increase in demand for affordably priced condominium apartments and townhouses by first-time home buyers, investors and empty-nesters, the combination of weak labour market conditions and elevated inventory will delay some new multi-unit projects this year. In addition, higher rental vacancy rates and increased supply in the resale market will prompt local builders to scale back production by accelerating the absorption of completed and unsold units. Next year, a gradual improvement to the economic outlook will support a slightly higher level of production of multi-unit dwellings.

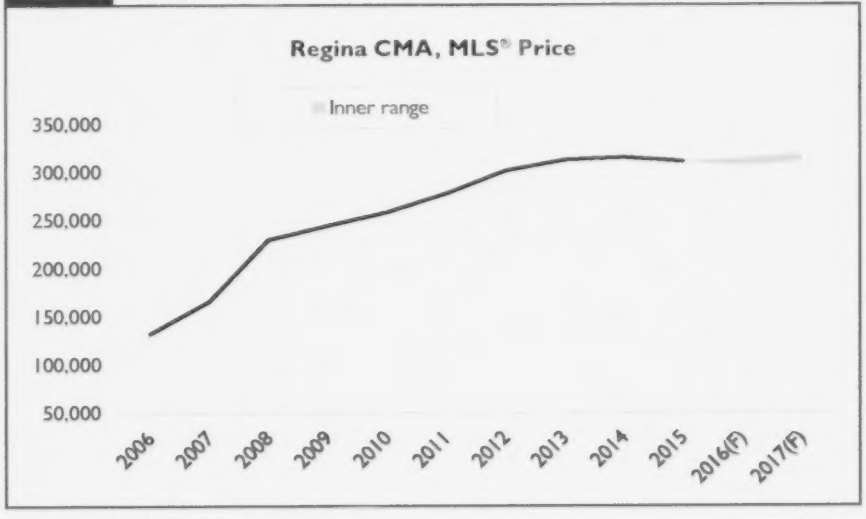
During the first three months of 2016, local builders initiated 114 multi-unit dwellings, down 38 per cent from 183 in the same period one year prior. Despite fewer starts, multi-unit inventory in the ownership market stood at 373 units in March, up 24 per cent from March 2015, and significantly above the five-year average of 132 units. More than 70 per cent of multi-unit inventory in the first quarter represented condominium apartments, of which the majority were located in neighbourhoods within the East and Central zones of the Regina CMA.

Resale market: MLS® sales to remain flat in 2016, edge up in 2017

Regina's MLS® sales are forecast to remain relatively stable this year and range from 3,330 to 3,470 units in 2016, before edging up to be between 3,380 and 3,520 units in 2017. Persistent downside risks posed by lower oil prices have slowed employment growth and lowered net migration to the region. As a result, resale demand in Regina is expected to remain relatively flat this year. Next year, a gradual improvement in economic conditions will help lift existing home sales, albeit tempered by a gradual rise in mortgage rates towards the latter part of the year.

MLS® sales in Regina's overall market totalled 657 units in the first quarter of 2016, up 2.7 per cent from the

Figure 4



Source: CREA, (F): CMHC Forecast

[2] Multi-unit starts include semi-detached, apartments and row units.

same period a year earlier. On the supply side, active listings were down four per cent under the same comparison. While resale supply has started to ease, it remains elevated relative to historical levels. Moving forward, a more pronounced decline in listings or a significant gain in sales will be required in order to shift market balance from buyer's to balanced conditions. According to the base case forecast, the latter scenario is not expected this year.

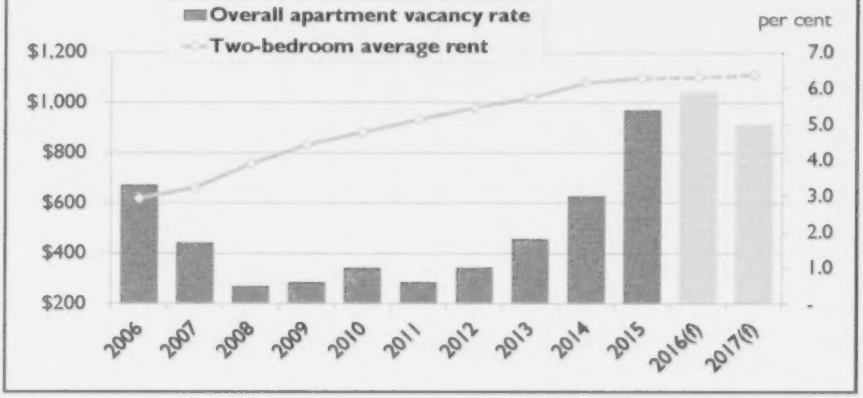
After declining 1.4 per cent to $310,609 in 2015, Regina's average MLS® price is forecast to range from $306,000 to $314,100 in 2016 and from $310,400 and $318,600 in 2017. While buyer's market conditions are expected to continue putting downward pressure on house prices this year, CMHC's Housing Market Assessment[3] detected moderate evidence of overvaluation in the Regina market in the fourth quarter of 2015. This suggests that the observed level of prices is not being fully supported by growth in economic and demographic fundamentals such as personal disposable income and population. However, market conditions are expected to improve next year due to slightly firmer resale demand, which will support a modest gain in resale prices.

Rental market: Higher rental supply will keep upward pressure on vacancies through 2017

The average apartment vacancy[4] rate in the Regina CMA is forecast to rise to 5.9 per cent in October 2016 from 5.4 per cent in October 2015. The increase in the vacancy rate this past fall has contributed to CMHC's detection of strong evidence of overbuilding in the Regina CMA. A modest decline to five per cent is projected for 2017 as improving economic conditions increase rental demand and lower the vacancy rate. This year, weaker employment growth among young adults and lower net migration will moderate rental demand in Regina. Meanwhile, rental supply in Regina has been on the rise for the past three years. While only 28 rental apartment units were started in the first quarter of 2016, there were 700 rental apartments started in Regina in 2015 and 803 units in 2014. Moving forward, as more of these units are completed, they will add to rental supply and put upward pressure on apartment vacancies.

Figure 5

Regina's apartment vacancies to remain elevated, two-bedroom rents to rise modestly



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

[3] See (Housing Market Assessment).

[4] In structures with three or more units purpose-built for the rental market.

From July 2015 to March 2016, builders in Regina completed a total of 478 apartment units intended for rental tenure.

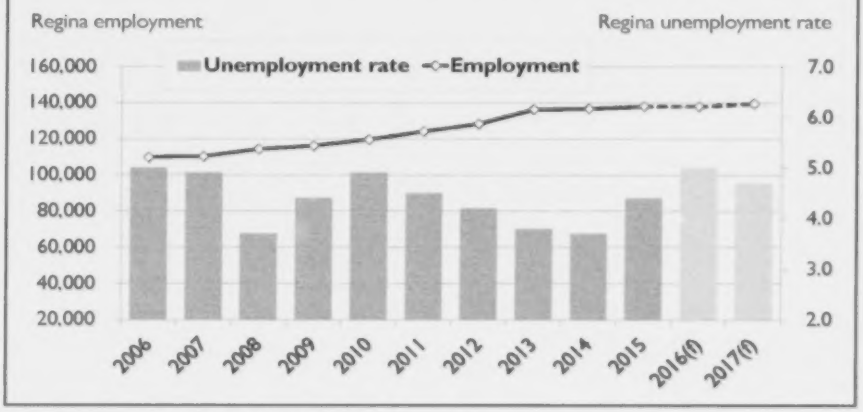
Regina's average two-bedroom apartment rent is forecast to rise modestly to $1,100 in October 2016 from $1,097 in October 2015. Relatively high apartment vacancies will limit increases in average rents over the forecast period. That said, the addition of newly completed units to the rental universe at higher price points will help push up the average monthly rent for a two-bedroom apartment in Regina to $1,110 in October 2017.

Economic trends: Flat job growth expected in 2016, modest increase projected for 2017

After increasing one per cent in 2015, total employment in Regina is forecast to remain flat in 2016 and grow by just over one per cent in 2017. Low oil, potash and uranium prices have dampened investment spending and curbed business hiring plans. The decline in Regina's participation rate in 2015 to 72.7 per cent from 73.1 per cent and 74.9 per cent in 2014 and 2013, respectively, suggests some level of easing of severe labour shortages. We expect Regina's labour market to slacken further in 2016, which will push up the unemployment rate further. In 2017, a gradual improvement to the economic outlook due to modestly higher commodity prices is forecast to result in a 1.1 per cent expansion in employment, which will slightly reduce the unemployment rate. Next year's gains will also be supported by ongoing spending in commercial, infrastructure and institutional projects.

Figure 6

Regina's employment to remain flat this year, edge higher in 2017



Source: Statistics Canada, CMHC Forecast (f)

Employment growth in Regina was down slightly in the first quarter of 2016 with the loss of 100 positions, compared to an increase of 1,800 in the first quarter of 2015. The loss in part-time roles was slightly more than the addition of 1,400 full-time positions during the first three months of this year. During this period, Regina's seasonally adjusted unemployment rate was averaging 5.0 per cent, up from 4.4 per cent in the fourth quarter of 2015.

The decline in total net migration to Regina over the past two years has contributed to the easing in the CMA's population growth. Net migration to Regina declined 31 per cent in 2015 to 3,027 people from 4,392 in 2014. As a result, Regina's population growth slowed to 1.9 per cent in 2015 from 2.5 per cent in the previous year. Moving forward, we expect population growth to slow further to 1.8 per cent this year and remain thereabouts next year as well.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Interest rates are expected to gradually start rising from current levels in the first half of 2017, becoming less accommodative for housing demand.
Employment	Employment is set to be flat in 2016 on weaker commodity prices that have curtailed resource investment projects and reduced business hiring. A modest pickup in job growth is forecast for 2017, which will provide support to housing demand.
Income	Slower growth of personal disposable income in recent quarters has contributed to CMHC's assessment of a moderate case of overvaluation in Regina's house prices. Notwithstanding, average weekly earnings are expected to just surpass the rate of inflation this year, thus remaining supportive of housing demand.
Population	The reduction in total net migration helped slow population growth to 1.9 per cent in 2015. Moving forward, population growth expected to slow to 1.8 per cent in 2016, and remain at that rate in 2017 as well.
Resale Market	Flat sales and downward pressure on resale prices will temper the move-up market, contributing to a slower pace of housing starts in 2016. As well, higher resale listings will provide competition to a new home market that is already contending with higher inventory levels, thus moderating housing starts.
New Home Inventory	In recent quarters, the combination of elevated inventory of complete and unsold units relative to population and a higher rental vacancy rate have contributed to CMHC's assessment of strong evidence of overbuilding in Regina. In 2016, inventory of new housing units is expected to be a constraining factor on the pace of housing starts.

Forecast risks in 2016 and 2017

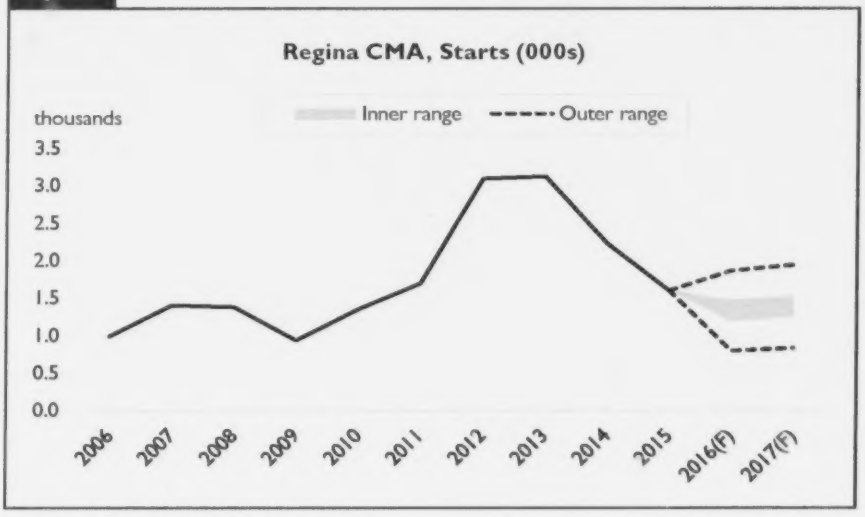
There are a number of risks both to the upside and downside which contribute uncertainty to the outlook. These risks are noted below and are represented by the lower and upper bounds of the outer forecast ranges for starts, MLS® sales and MLS® price:

- A prolonged period of lower oil, potash and uranium prices or a further decline in prices could result in weaker economic conditions than is forecast. This would slow employment growth further, resulting in existing home sales moving closer to the lower bound of the outer range of 3,170 sales by 2017.
- The outlook assumes new home inventory will be drawn down at a steady pace. Further escalation in new home inventory, combined with a higher-than-expected increase in resale supply, would result in housing starts shifting closer to the lower bound of the outer range of 830 units by next year.

Figure 7

Source: CREA, (F): CMHC Forecast

Figure 8



Source: CMHC, (F): CMHC Forecast

- A greater-than-expected improvement in the outlook for oil prices in 2016 and 2017 would substantively boost economic activity and employment growth, thus resulting in much stronger housing demand over the next two years. This would result in resale prices moving closer to the upper bound of the outer range of $326,800 by 2017.

Figure 9

Source: CREA, (F): CMHC Forecast

Forecast Summary Regina CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	1,246	707	513	580	670	590	680
Multiples	1,876	1,516	1,084	690	720	730	770
Starts - Total	3,122	2,223	1,597	1,180	1,470	1,240	1,530
Resale Market							
MLS® Sales	3,692	3,726	3,426	3,330	3,470	3,380	3,520
MLS® Average Price($)	312,355	314,968	310,609	306,000	314,100	310,400	318,600
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	1.8	3.0	5.4	5.9	5.0
Two-bedroom Average Rent (October)($)	1,018	1,079	1,097	1,100	1,110
Economic Overview					
Population	231,252	236,995	241,422	245,700	250,200
Annual Employment Level	136,100	136,700	138,000	138,000	139,500

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2016-2017)

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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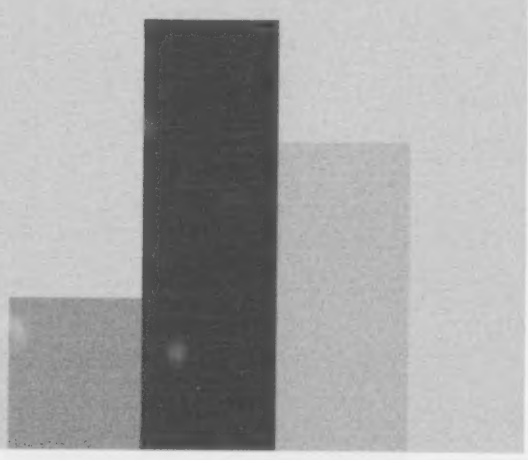

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